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SEPTEMBER 2011

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM oil companies underperform

Underperforming small AIM oil and gas companies could become targets for their larger, cash-rich rivals, according to accountants Ernst & Young.

Ernst & Young's Oil and Gas Eye index of the 20 largest AIM oil and gas companies fell by more than 12% in the second quarter of 2011 and it has fallen further since then.

The second-quarter fall was the largest since 2008. The uncertain oil markets have not helped the sector's performance and there were also some exploration disappointments, such as from Desire Petroleum in the Falklands, in the period. Larger companies have not been hit by as steep a decline. The fall in the FTSE350 oil and gas index was just over 5%. AIM as a whole fell by 5.3% during the second quarter.

More than £500m has been raised by oil and gas companies in the second quarter, with AIM oil and gas companies raising £268.6m – 28% of the total raised on AIM in the period. The AIM oil companies raised 13% less than the previous quarter. The underperformance by some AIM oil companies could make it harder for them to raise more cash to fund exploration and development.

Better-funded large companies could take advantage and snap them up. Lochard Energy is the latest small oil company to receive a bid approach.

NBNK targets Lloyds branches

Cash shell NBNK Investments is in the running to buy more than 600 bank branches from Lloyds Banking Corporation. NBNK floated on AIM just over a year ago and it is still to complete a deal.

It is thought that NBNK is in competition with the Co-Operative Bank and Hugh Osmond's Sun Capital Partners for 632 Lloyds branches and more than £68bn of assets. The deal is codenamed Project Verde.

The Independent Commission on Banking (ICB) is believed to be willing to allow Lloyds to sell fewer assets than it originally demanded. The ICB originally wanted Lloyds to divest 4.6% of its personal current accounts and 19.2% of its mortgage business but this potential sale is unlikely to satisfy that requirement.

Goldman Sachs has bought back into NBNK and owns 7.95%. Goldman Sachs was one of the initial investors in NBNK when it floated in August 2010 and it took a 9.4% stake at the time. It cut its stake below 3% in March. NBNK has a high-profile shareholder base. UBS took a 5.9% stake during May after JPMorgan, which is advising Lloyds on the disposal, reduced its holding. Other large shareholders include Invesco, F&C and Baillie Gifford.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Cape Lambert plans Marampa spin-off

ASX-listed Cape Lambert Resources Ltd is planning to spin off its Marampa iron ore project onto AIM by the end of November. The Australian company's chairman has been quoted as saying that the spin-off company will be valued at around $500m. Cape Lambert, then known as Cape Lambert Iron Ore, was itself formerly quoted on AIM but shareholders voted to cancel the AIM quotation in February 2009.

Marampa is in Sierra Leone and it has a total mineral resource of 680m tonnes at 28.2% iron across four deposits. Initial capital investment is estimated to be $655m. Production could start by 2013 and the plan is to build up production to 10m tonnes a year. A joint venture with African Minerals will provide the rail infrastructure and port access for Marampa.

Cape Lambert, which owns 100% of the Marampa project, is thought to be seeking a strategic investor in the project. A prospectus should be ready by the end of September. In February, broker Patersons estimated that the value of Marampa was $542m. That is the majority of its estimate of the value of Cape Lambert as a whole.

Cape Lambert joined AIM on 4 May 2006 in order to gain greater liquidity and access to the capital it required to finance the development of the Cape Lambert iron ore project. Cape Lambert decided that the AIM quotation was not worth the cost, especially as UK shareholders owned less than 2% of the company by the beginning of 2009.

Cape Lambert recently sold its Sappes gold project in Greece to ASX-listed Glory Resources for A$46.5m in cash and Glory shares. Sappes has a total mineral resource of 774,000 ounces of contained gold at the Viper and St Demitrios deposits.

Petro Matad disappoints

Mongolia-focused oil and gas explorer Petro Matad reported disappointing results from a test on its DT-1 well at the Davsan Tolgoi project on Block XX in eastern Mongolia. The share price fell by two-fifths during August, although some of that decline was before the drilling news. DT-1 was hampered by poor well cementing making the test invalid. In the next few weeks there will be data from the DT-11 well, which is in the same region as DT-1. House broker Westhouse says that the flow test from the DT-9 well on the Lower Tsagaantsav was valid but the broker has increased its estimate of the geological risk following the results. Westhouse has cut its target share price from 279p to 183p, which is partly down to the DT-9 result and a change in the $/£ exchange rate.

Arundel tries to scupper Healthcare Locums rescue refinancing

Medical staff recruitment services provider Healthcare Locums has announced an extremely dilutive fundraising but the move is opposed by Arundel LLC, which owns 0.5% of the company but says it has the backing of 22% of the existing share capital.

Arundel claims that there are potential buyers of the company's senior debt and then further cash could be raised via a rights issue. Arundel advises that shareholders should vote against the refinancing. The general meeting to approve the fundraising is on 12 September. The company needs to get 75% of the votes in order to go ahead.

Healthcare Locums has £130m of debt and it raised A$34m (£22.4m) from the sale of its Australian homecare division. A proposed placing at 10p a share would raise £60m, while an open offer at the same price would raise a further £4.25m. The open offer to existing shareholders will do little to offset the dilution of the placing but shareholders can apply for more than their allotted shares. The placing price values the existing share capital at little more than £11m.

Ares Lux is converting £22.4m of debt into shares at 18p each and a further £10.2m of its debt will convert into zero-coupon notes. The banks are writing off around £6.5m of debt. A further £4.09m of debt will be swapped for shares in the placing.

Founder Kate Bleasdale, who still owns 10% of Healthcare Locums, is suing the company for sex discrimination and unfair dismissal.

advisers

South African approach for Merchant Securities

Takeover activity among Aim brokers is continuing to gather pace. Merchant Securities is the latest Aim broker to receive a bid approach. This preliminary approach is from Sanlam, a South African financial services business. Sanlam has bought 5m shares at 14p each, which is equivalent to 9.74% of Merchant Securities.

The Cape Town-based business is more than 90 years old and it was demutualised in 1998. Sanlam (www.sanlam.co.za) is listed on the Johannesburg and Namibian Stock Exchanges. Core earnings were R4.15bn in 2010.

There are preconditions to the bid approach. They include the unanimous recommendation of the Merchant Securities board and the completion of due diligence.

The bid approach is through Sanlam UK, which provides life, pension and investment management services in the UK. It appears that Merchant Securities' wealth management activities could be the main attraction for Sanlam. Acquisitions helped the private client wealth management division of Merchant Securities to more than double funds under management from £205m to £487m in the year to March 2011.

Aim broker Daniel Stewart more than trebled its revenues and returned to profit in the year to March 2011 as it expands its international operations.

The growth in revenues was partly attributable to realised and unrealised share gains but corporate finance revenues still more than doubled to £7.62m. During the year Daniel Stewart completed 37 transactions and helped to raise £107m in cash for its clients. Daniel Stewart's presence in Kuala Lumpur added new clients. A group loss of £2.91m was turned into a profit of £1m.

The wealth management operation increased its assets under management to more than £125m. That includes £50m from contacts of Daniel Stewart's Dubai operations. There are plans to start operating in Hong Kong in order to tap the Chinese market.

Daniel Stewart had £2.48m in cash at the end of March. There was an operating cash outflow but £2.54m was raised from share issues.

Chief executive Peter Shea has taken the opportunity to buy more shares. He added 1m shares at 1.41p each to take his total holding to 51.2m shares, or 10% of Daniel Stewart.

Since March, Daniel Stewart has been involved in raising a further £34m for clients with increased interest in debt finance.

ADVISER CHANGES - AUGUST 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Active Energy Group	Merchant Securities	Jendens / Rivington Street	Merchant Securities	Merchant Securities	01/08/2011
Mountfield Group	First Columbus	First Columbus	Cairn	Arbuthnot	01/08/2011
Photon Kathaas	Rivington Street / Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	01/08/2011
WYG	Numis	Numis / Arbuthnot	Numis	Arbuthnot	01/08/2011
Polo Resources Ltd	Liberum / Evolution	Evolution	Evolution	Evolution	02/08/2011
Kibo Mining	Cornhill Capital	Alexander David / Loeb Aron	Daniel Stewart	Daniel Stewart	03/08/2011
Quadrise Fuels International	Westhouse	Jendens	Smith & Williamson	Smith & Williamson	03/08/2011
Top Level Domain Holdings	XCAP/Daniel Stewart	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	03/08/2011
Wildhorse Energy	Liberum / GMP	GMP	Grant Thornton	Grant Thornton	03/08/2011
Allied Gold Mining	Oriel / RBC	RBC	RBC	RBC	04/08/2011
CIC Mining Resources	Northland	Canaccord Genuity / XCAP	Northland	Canaccord Genuity	04/08/2011
Premier Management	Rivington Street	Rivington Street	Libertas	Brewin Dolphin	04/08/2011
xG Technology Inc	First Columbus / Allenby	Allenby	Allenby	Allenby	04/08/2011
Orosur Mining	Canaccord Genuity	Matrix	Canaccord Genuity	Matrix	08/08/2011
Condor Resources	Ocean Equities	Ambrian	Beaumont Cornish	Ambrian	09/08/2011
Northbridge Industrial Services	Arbuthnot	Arbuthnot	Arbuthnot	Smith & Williamson	16/08/2011
Oxford Pharmascience	Hybridan	ZAI	ZAI	ZAI	18/08/2011
Porta Communications	Northland	Zeus	Northland	Zeus	18/08/2011
Amiad Filtration Systems Ltd	Nomura Code	Panmure Gordon	Nomura Code	Panmure Gordon	19/08/2011
Natasa Mining Ltd	HD Capital Partners	WH Ireland	Strand Hanson	Strand Hanson	22/08/2011
Prezzo	Altium	Evolution	Altium	Evolution	22/08/2011
UMC Energy	HD Capital Partners	ODL Securities	Strand Hanson	Strand Hanson	22/08/2011
Zoltav Resources Inc	Shore	Renaissance Capital / Strand Hanson	Shore	Strand Hanson	22/08/2011
Nighthawk Energy	Westhouse	Matrix / Westhouse	Westhouse	Westhouse	25/08/2011
Strategic Minerals	Daniel Stewart / Allenby	Allenby	Allenby	Allenby	25/08/2011
Weatherly International	Collins Stewart	Ambrian	Collins Stewart	Ambrian	26/08/2011
Rotala	Numis	Charles Stanley	Numis	Charles Stanley	31/08/2011

company news

Recovery in global capital investment boosts Delcam software sales

Manufacturing software *www.delcam.com*

Capital investment has recovered this year and manufacturers need software to make the most of their new machines. This is certainly true of **Delcam's** customers, which have been spending more on its computer aided manufacturing (CAM) software.

Delcam is the largest CAM-focused software supplier in the world yet it is still a relatively small company. It is the third-largest global CAD/CAM software supplier with a 6.7% market share. Delcam focuses on growing niche markets such as dental and orthotics.

Revenues grew from £17.8m to a record interim figure of £20.1m in the six months to June 2011. Sales in Europe, Asia and the US were strong but South America was disappointing. Maintenance revenues are one-third of sales and this provides a reliable revenue stream.

Delcam is the largest CAM software supplier in the world

Admin costs were flat in the first half. This meant that pre-tax profit jumped from £810,000 to £1.51m.

There was net cash of £11.1m at the end of June 2011. That was despite an additional pension payment of £2.5m, which has wiped out the pension deficit at the balance sheet date. Maintenance contract renewals have boosted deferred income and improved the cash inflow. Earlier this year, Delcam raised £862,000 from a placing with Herald Investment Management at 412.5p a share. Unrestricted cash was £10m. The interim dividend has been

DELCAM (DLC)			445p
12 MONTH CHANGE %	+ 48.3	MARKET CAP £M	35.3

increased 30% to 1.75p a share. This is partly a rebalancing of the interim and final dividends.

Despite this strong performance, house broker WH Ireland is sticking to its 2011 profit forecast of £2.8m, up from £2.31m in 2010. On the face of it, that suggests a fall in profit in the second half but it is prudent to be cautious given the uncertain global economic outlook. Delcam has seen signs of weakness in the US but generally trading continues to be positive. The second half is normally stronger and that could still be the case this year, leaving scope for a forecast upgrade later in the year. The shares are trading on less than 14 times these conservative estimates.

Cash rich Powerflute seeks acquisition

Packaging paper manufacturer *www.powerflute.com*

Powerflute sold its graphic papers business in the first half of 2011 and its remaining business is the packaging board manufacturer in Finland which it owned at the time of its flotation. Management is on the lookout for another acquisition where it can reinvest the proceeds and transform an underperforming business.

The graphic papers disposal helped Powerflute to move into a net cash position by the end of June 2011. Gross debt was €25.8m but there was net cash of €2.1m. Capex was

POWER FLUTE (POWR)			25.88p
12 MONTH CHANGE %	+ 29.4	MARKET CAP £M	75

nearly €5m in the first half and it will be lower in the second half. That means that the business will be cash generative. Net cash could be more than €10m at the end of the year.

Powerflute is in no hurry to make an acquisition, though. It wants to make the right acquisition and it took its time to find and acquire the graphic papers business. Powerflute is unlikely to buy anything in the short term although this depends on what opportunities it is offered. Non-core operations of much larger businesses are the most likely purchases.

The revenues of the continuing operations rose 15% to €58.3m in the six months to June 2011 and the operating profit jumped from €200,000 to €6.9m. Capital investment is improving the quality of the packaging board and that is helping Powerflute to push up its prices. That offset a 4% decline in volumes. There is more improvement to come through in the second half.

company news

Churchill improves margins by dropping low margin sales

Tableware manufacturer *www.churchillchina.com*

CHURCHILL CHINA (CHH)			275p
12 MONTH CHANGE %	+ 2.8	MARKET CAP £M	30.1

Churchill China improved its interim profit even though there was a drop in retail sales of its tableware.

Revenues fell from £20.2m to £19.2m in the six months to June 2011. The withdrawal from the supermarkets sector helped to improve margins as did greater manufacturing efficiency. Pre-tax profit rose from £624,000 to £689,000.

Sales to the hospitality sector were slightly lower at £12.9m but that was attributable to the lack of new installations. Last year's interims benefited from the kitting out of the Lansdowne Road hospitality facilities and other contracts totalling £400,000.There is a Middle East contract valued at £500,000 in the second half of this year. Most of the revenues come from existing customers buying replacement tableware. New product development and increased marketing will help to push forward sales in new markets. In the UK, Churchill is adding glassware and cutlery distributorships so that it can offer customers a full range of products.

> Churchill is trying to boost sales of its own brands

Retail sales fell from £7.1m to £6.3m and full-year sales will be less than £12m. Even so, this division's profit contribution still improved. Churchill is still selling stock that is aimed at the supermarkets but this should be disposed of in the second half. The focus will be the middle market and independent retailers, including farm shops. Cath Kidston products continue to sell well and Churchill is trying to boost sales of its own brands.

Net cash was £4m at the end of June 2011. There was a cash outflow in the first half because of higher inventories and the payment of the final dividend, which cost £1m. There is a pension deficit of £4.5m.

The interim dividend is being maintained at 4.8p a share even though an unchanged total for the year will still be barely covered by earnings. Churchill did not pay a dividend in 1999 because the company fell into loss but management regretted the move. A number of shareholders are attracted by the dividend and Churchill is likely to be keen to maintain it unless trading deteriorated sharply. The yield is 5.1%.

House broker Brewin Dolphin forecasts a rise in full-year profit from £2.3m to £2.5m, giving a 2011 prospective multiple of 16.

OPG on course for capacity target

Indian power generator *www.opgpower.com*

OPG POWER VENTURES (OPG)			63.25p
12 MONTH CHANGE %	- 10	MARKET CAP £M	222.5

Indian electricity demand is growing at more than 10% a year and there is a deficit for peak power. **OPG Power Ventures** is on course to reach its target capacity of 1250MW by 2015, which will provide a small part of India's growing electricity requirement.

India requires a significant increase in generating capacity.

There was an 11% shortfall in supply in March 2011 and this is causing electricity prices to rise. Indian GDP is growing at 8% a year and electricity demand is growing faster. It is estimated that $500bn of investment is required by 2017.

OPG increased its revenues by 188% to £33.2m in the year to March 2011, with pre-tax profit doubling to £11.2m. There is £80m in the bank to help finance additional capacity. There is also debt of £45.3m on the balance sheet.

OPG had 113MW of capacity fully operational at the year end. It predominantly focuses on coal-fired generation and it has secured its foreseeable medium-term coal needs from India and overseas. Capacity should reach 190MW by next March and then jump to 742MW the following year. That growth is coming from additional modules at its Chennai plant and 300MW of capacity planned in Gujarat.

company news

GGG Resources resolves Bullabulling gold project ownership issues

Gold mining *www.gggresources.com*

GGG RESOURCES (GGG)			23.75p
12 MONTH CHANGE %	+ 106.5	MARKET CAP £M	39.4

AIM-quoted and ASX-listed **GGG Resources** has agreed with ASX-listed Auzex Resources to form Bullabulling Gold Ltd, which will take 100% ownership of the Bullabulling gold project near Kalgoorlie in Western Australia. The new company will have an independent board and float on AIM and the ASX.

It was inevitable that the project would have to simplify its ownership structure to enable it to raise the cash it requires for the development of the gold mine. GGG made a bid for Auzex but failed to win the backing of its target's shareholders. However, this did lead to the discussions that ended with the agreement to put the Bullabulling assets into a new Australian-registered company which will be created by GGG.

A scheme of arrangement will cancel the share capital of UK-registered GGG, with shareholders receiving the equivalent shares, warrants and options in Bullabulling Gold. GGG may also decide to demerge assets and excess cash as part of the scheme.

Bullabulling Gold will own 100% of the Bullabulling gold project

The first step for Auzex is to spin out its non-Bullabulling assets into a separate company. Auzex will also retain some of its cash. Auzex will go through its own scheme of arrangement where its shares will be swapped for shares in Bullabulling Gold. This will give Auzex shareholders 50% of the new company. Auzex may need to raise additional cash if there is any difference in its cash and that of Bullabulling Gold.

A formal merger agreement will be finalised before the end of September. GGG and Auzex shareholders will then be sent separate scheme documents. Both sets of shareholders will have to agree to the proposals. It will also require regulatory and court approvals. GGG owns shares in Auzex so its shareholders are likely to end up with around 54% of Bullabulling Gold.

The recently announced JORC resource estimate for the Bullabulling project was 2.6m ounces of gold at 1.03g/t Au. Further drilling is underway so that a reserve can be estimated.

New West of Shetland find for Faroe

Oil and gas *www.faroe-petroelum.com*

FAROE PETROLEUM (FPM)			163.25p
12 MONTH CHANGE %	- 6.9	MARKET CAP £M	346.7

Faroe Petroleum has made another oil discovery West of Shetland in the North Sea. The Fulla oil discovery is the company's third in the region and Faroe has a 50% stake in the discovery. This is also the first discovery where Faroe is operator.

The Fulla oil discovery in Block-206/5a of the UK North Sea is close to the Clair field, which is operated by BP. The 206/5a-3 exploration well encountered a 45ft hydrocarbon bearing column through a primary objective of 133ft of gross Clair and Whiting reservoir sandstone. The results indicate porosity of 23% and fluid samples are being further analysed.

Faroe made the Glenlivit and Tornado discoveries in the region during 2009. Faroe had £84.2m in the bank at 1 July and there is cash being generated from producing assets. On top of that Faroe has a £156m lending facility for capital expenditure and acquisitions, plus a facility of up to £110m which will be used to finance wells in the Norwegian North Sea.

Centrica has commenced drilling on the Butch prospect in the Norwegian North Sea. Faroe owns 15% of Butch, which is North East of the Tambar field. This is the first of three wells. The drilling should be completed in the fourth quarter. Broker Westhouse says that Faroe and Valiant Petroleum are the only AIM-quoted oil and gas explorers which offer geared exposure to the West of Shetland basin, which has been explored less than other parts of the North Sea.

Strong dividend growth forecast for Densitron

Displays supplier *www.densitron.com*

Dividend

In 2010, displays supplier Densitron paid a one-off dividend of 5p a share, costing £3.46m, out of the proceeds of the disposal of its stake in Evervision Electronics. Even after paying this dividend, Densitron still had cash of £2.1m in the bank at the end of June 2011. Net cash was £668,000.

On top of the one-off dividend Densitron also returned to the dividend list last year, paying a total of 0.3p a share. Prior to last year, Densitron had not announced a dividend since 2002 when it paid 0.5p a share.

The latest interim dividend has been doubled to 0.2p a share and Westhouse expects the total dividend for the year to be doubled to 0.6p a share. That would be covered nearly 2.5 times by forecast earnings for 2011. Similar dividend cover would enable a dividend of 0.8p a share to be paid for 2012, which would provide a yield of 6.9%.

Cash flow from operations should be strong enough to fund the dividend and increase the cash in the bank.

Business

Densitron is growing on the back of increasing demand for touchscreen displays. Densitron offers a wide range of displays using various technologies as well as an engineering design service. Continuing revenues grew from £8.6m to £11.3m in the first half of 2011, although the order intake grew more slowly. The best growth rates were in the US and Asia but European revenues still grew from £4.7m to £5.9m. Densitron generates better gross margins in the US and Asia.

DENSITRON TECHNOLOGIES (DSN)	
Price	11.62p
Market cap £m	8.04
Historical yield	2.6%
Prospective yield	5.2%

Pre-tax profit jumped from £97,000 to £504,000. The majority of this profit was provided by the US operations, although the various geographic contributions depend on how costs are allocated.

Densitron plans to open an office in India next year. This is in response to enquiries from India but the office will increase costs in the short term. Densitron is likely to open new offices in other markets in the future.

There is a plot of 1.25 acres of land in Blackheath that Densitron would like to develop but it has found it difficult to obtain planning permission. The latest planning application appeal has been withdrawn. A new approach is being considered. This could involve reclassification of the land from its current status as Metropolitan Open Land. Success in winning planning permission would boost the net asset value of the company but investors should not hold their breath.

Densitron is focusing on organic growth. Westhouse forecasts that 2011 underlying profit will improve from £605,000 to £1.28m. The 2012 profit forecast is £1.8m, which puts the shares on a prospective multiple of six. The rating does not fully reflect the growth potential of the business given strong demand for high-technology displays.

Dividend news

Pawnbroker **H&T** announced an interim dividend of 3.75p a share for the first half of 2011. Last year, H&T paid a 2.5p a share interim plus a 1p a share special dividend. FinnCap expects the total 2011 dividend to increase from 9.5p a share, including the special dividend, to 10p a share. The broker also increased its 2011 profit forecast from £17m to £19m, down from £25.5m in 2010. Last year was boosted by large increases in gold-buying volumes. The gross profit on gold buying is forecast to decline from £20m to £15m.

Online dating company **Cupid** reported better than expected interim figures and it is on course to more than double its dividend this year. Cupid does not pay an interim dividend but Peel Hunt forecasts that the final dividend will rise from 0.5p a share to 1.1p a share. Interim sales rose 190% to £25.5m, while earnings per share increased 75% to 4.9p a share. Cupid has made a number of acquisitions but the majority of the growth has been organic, with the international business contributing 53% of revenues. Peel Hunt expects full-year earnings to grow 61% to 9.3p a share, providing more than adequate cover for the dividend.

Online gaming software and services provider **Playtech** says it has decided not to pay an interim dividend because of potential joint venture and acquisition opportunities that may require the cash. Last year, Playtech paid an interim the equivalent of 7.7p a share, followed by a final dividend of 8.23p a share. Playtech is not short of cash, though. There was €64.3m in cash in the balance sheet at the end of June 2011, although there was also deferred and contingent consideration of €20.7m. Playtech says it will consider a dividend when it reports its full-year figures.

expert views

Expert view: The broker

A break in the clouds

By DUNCAN HALL

London Capital encountered difficult conditions in 2010 as company-specific issues combined with tougher trading conditions for the spread-betting sector reduced the group's reported profitability substantially. This year London Capital will benefit from market volatility due to anxiety about the rate of global economic growth and concerns about the strength of the financial system in Europe.

This year London Capital will benefit from market volatility

London Capital provides financial spread-betting services through Capital Spreads. The group also offers CFDs, broking and foreign exchange services.

Interims

The interim profit of £3m was in line with expectations set back in March. At £11.3m, FSB revenues advanced 17% half on half. Total client accounts advanced 19% to 68,652. Active clients represent around one-third of that number and revenue per active user rose 15% to £807.

During the period came news that Paddy Power – responsible for 17% of active clients – was withdrawing from the spread-betting market. London Capital will continue to service former Paddy Power customers, paying Paddy Power a commission until June 2012 but enjoying a full margin thereafter.

London Capital has also won the TD Waterhouse business, which removes doubt over the future of the E*Trade account. Cumulatively, the scope to grow the TD Waterhouse account and gain margin on former Paddy Power custom places London Capital in a better position than it had occupied in 2009/10.

The comparatives for the first half of 2010 were demanding, but last year a strong first half was followed by a very weak second half, so for 2011 it appears that the challenge of comparatives will be reversed.

There were specific issues that blighted the 2010 results. They were shaped by a software impairment charge (£3.2m), an unrecovered client bad debt (£1.4m) and an adverse Financial Ombudsman Service (FOS) judgement that could amount to over £6m if satisfied as currently levied.

The pressures on the group resulted in a shortfall on regulatory capital by early 2011 and instead of presenting a traditional surplus, by the second quarter the group needed to raise £3-4m. The funding objective was set at £5m and during March £8m was raised at 60p – £7.5m net. London Capital had a surplus capital position of £12m at the interim stage. Current and future calculations will benefit from profitable trading during 2011.

Margins

The group has the opportunity to rebuild margins. The white-label model provides revenue expansion opportunities but without margin uplift as a consequence of pay-aways. While customer number growth has not been the issue, low ticket transactions can prove dilutive to earnings, particularly during the range-bound markets that have accompanied low equity trading volumes during the last year.

London Capital had been paying away 25-30% on Paddy Power revenue – for example, this implies £1.2m would be paid away on £4m of revenue, to leave £2.8m before London Capital can claim a share (say 50%). A drop of 40% in trading volume on that account would translate into an equivalent decline in net profit, currently the case and a challenge for the group. However, post June 2012, assuming that with some marketing, trading levels were able to hold at £2.5m, this would represent profit opportunity of £1.2m for London Capital at 50% gross margin, suggesting no great loss of net income despite a significant change in account structure.

CFD business represents a small part of the whole. During the first half London Capital invested £0.5m and generated revenue of £0.1m. Prospects are improving. Losses for the UK CFD operation were £75,000 for the first half of 2011 as against £0.3m in the corresponding period in 2010. The question is how much more of the cost base will be recovered in the second half, especially in Australia, which generated the larger loss?

Tight cost control has an important role in the group's earnings recovery. We have allowed for an increase in overall operating costs, aligned to increased trading levels and to reflect additional marketing spend. However, operating costs across the group have been edging down. Trading in the second half should shine against weak 2010 comparatives as well as benefiting from increased volatility. The pre-tax profit estimate of £7m for 2011 (which could surprise on the upside) has been held. A dividend of 3.9p gives the shares a yield of more than 5%.

In terms of valuation, anticipated consolidation across the sector may help to highlight value in London Capital's franchise as would resolving the FOS debacle.

DUNCAN HALL is a research director at finnCap.

feature

AIM's outperformers

AIM has not been immune to the recent weakness in global stock markets but there are still plenty of AIM-quoted companies that have performed strongly in the past year.

Even after a tough couple of months AIM is still 12% ahead over the past 12 months. AIM has outperformed the FTSE All Share index, which is 4% higher over the same period. As in any market there are strong performers and weak performers.

There are 66 AIM companies whose share price has at least doubled in the past year. That is more than 5% of the companies on AIM. Those companies cover a wide range of sectors. Resources companies are certainly well represented but there are other types of companies as well.

Admittedly, resources companies are over-represented in the top-20 performers because they contribute 50% of the companies in the list, whereas they account for one-quarter of the companies on AIM. However, more than two-thirds of the bargains in AIM shares are in resources companies so it is not surprising that there is a strong representation in the table.

The best performers are a mixture of cash shells, early-stage companies, recovering companies and more mature businesses.

TOP 20 AIM RISERS IN PAST 12 MONTHS

COMPANY	ACTIVITY	SHARE PRICE (P)	% INCREASE
Condor Resources	Mining	6.75	1223.5
Zoltav Resources Inc	Oil and gas	3.62	1108.3
Parkmead Group	Oil and gas	15.25	1009.1
@UK	Internet services	9.62	816.7
Sareum Holdings	Pharma	1.65	392.5
Beowulf Mining	Mining	27	390.9
KEFI Minerals	Mining	4.12	385.3
Planet Payment Inc	Card payments processor	222.5	368.4
API Group	Packaging	45.25	320.9
Mulberry Group	Branded goods	1535	320.6
Mobile Streams	Mobile apps	16.25	319.4
Patagonia Gold	Mining	66.75	317.2
Sunrise Resources	Mining	2.5	300
HaiKe Chemical Group Ltd	Chemicals	70.5	281.1
Triple Plate Junction	Mining	4.65	279.6
Surgical Innovations Group	Surgical instruments	13.12	262.1
i-design group	ATM advertising software	48	255.6
Bahamas Petroleum	Oil and gas	9.49	251.5
Davenham Group	Financials	1.12	246.2
Orosur Mining Inc	Mining	76.12	246

Source: Digital Look

Recovery

In any list of best performers, whatever time of the year it is compiled, the top of the list tends to be dominated by small companies that have slumped in previous years. Something has generally sparked a sharp recovery in the share price. The top three performers of the past year bear the hallmarks of this type of share price rise.

Minerals explorer Condor Resources had been held back by an unofficial moratorium on all exploration and mining in El Salvador. Expansion in other countries in Central America enabled Condor to make progress.

The Condor share price is still well down on its level five years ago but the decision to reject a 0.45p a share bid during 2010 has been vindicated.

The initial jump in the Zoltav Resources Inc share price happened when mining investor Old Church Street, which is associated with Irish resources investor John McKeon, acquired a 35.4% stake in January. At that time Zoltav was known as Crosby Asset Management and it had completed the sale of its operating businesses in October 2010.

Zoltav can be classed as a resources business although it is effectively a shell at the moment. The official description of the focus of the business is "acquiring and developing natural resource assets initially in the Former Soviet Union". Oil and gas is the preferred sector for the company and it is assessing a number of potential deals. ARA Capital, a company owned by Roman Abramovich's son Arkadiy Abramovich, has taken a 40% shareholding during the summer.

feature

Zoltav is not covered by the Takeover Panel rules because it is not a UK company. That is why there is no requirement for a bid even though a stake of more than 30% has been acquired.

There are 66 AIM companies whose share price has at least doubled in the past year

The arrival of former Dana Petroleum boss Tom Cross on the board of oil services provider Parkmead Group sparked a sharp rise in its share price before he had any chance to make a contribution. Parkmead investors are pinning their hopes on Tom Cross repeating the success that he had at Dana, which was acquired by Korea National Oil Corporation for £1.87m. Cross walked away with £37m after the takeover. He intends to turn Parkmead into an oil and gas explorer.

Mulberry

Some of the strong performers started off as very small businesses but there are others that are moving ahead rapidly even though they are relatively large companies. One example of this is branded goods retailer and wholesaler Mulberry, which is now one of the top 10 biggest companies on AIM.

Regular profit forecast upgrades and better than expected results have helped Mulberry to grow and gain a high rating for its shares. The figures for the year to March 2011 were better than expectted and this led to further profit upgrades.

Underlying pre-tax profit jumped from £6.1m to £23.3m in the year to March 2011, as revenues grew from £72.1m to £121.6m. Most analysts were expecting the profit to be less than £22m. The business is being pushed forward by strong Asian demand for its branded products. UK sales are growing and Mulberry has even been adding manufacturing capacity in the UK.

The current-year trading has continued to be strong and this sparked an upgrade from analysts. Retail sales were 38% ahead in the first 12 weeks of the new financial year and wholesale sales are ahead by a similar percentage. FinnCap increased its 2011-12 profit forecast from £27.5m to £30m. Even after that upgrade, the shares are trading on nearly 42 times the forecast earnings for 2011-12.

Investors are willing to pay this premium rating because of the scope for international expansion. The recent history of positive surprises means that there is a chance of further upgrades over the coming year.

Mulberry recently celebrated its fortieth anniversary and it has been quoted on AIM since the 1990s. It has not always been such a success. It has had tough times in the past and is a good example of how companies can come through those difficult trading conditions and go on to be successful quoted businesses.

Parkmead investors are pinning their hopes on Tom Cross repeating his success at Dana Petroleum

Another example of this is Surgical Innovations, which has developed a range of reposable surgical instruments for keyhole surgery. The surgical instruments have a disposable element but the main instrument is reusable. It has taken a long time to build up sales but the patience is starting to pay off. US sales are finally starting to take off thanks to new distribution deals and this is helping to push profit upwards.

It is a good time for Surgical Innovations products because of pressure to reduce healthcare costs. This is helping to push up sales of reposable devices for minimally invasive surgery, particularly in the US where laparoscopic procedures are most prevalent. New product launches will help to accelerate growth into 2012.

Continued growth

Share prices in many of the companies in the top 20 performers could continue to rise, although not necessarily at the rates achieved in the past 12 months. Mulberry and Surgical Innovations are two examples of businesses with continued growth prospects.

Mobile Streams could grow substantially on the back of its Appitalism.com app store. The momentum from the launch of Appitalism.com has already moved Mobile Streams into profit and helped to add more subscribers.

Cash machine advertising technology provider i-design is still losing money but it is signing deals with banks both in the UK and overseas. A deal with Barclays covering all its 4,000 cash machines in the UK shows that i-design's technology is being accepted in the bank sector. There are 21,000 cash machines using i-design's software. A new version of i-design's software called joono enables the cash machine marketing campaigns to be integrated with those using mobile and plasma screens.

There have also been plenty of companies that have performed poorly over the past year, with some losing nearly all of their value over the period. That is to be expected in a junior market where there are always going to be companies taking risks and finding out that there is not a significant market for their products and services.

AIM will continue to have winners and losers but it has shown that it can produce companies that can grow into significant businesses, such as Mulberry. This will not happen with the majority of the companies, but as long as there are some significant success stories then the market will be doing its job.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	21.9	10.9
Basic materials	21.5	14.5
Financials	18.7	22.5
Industrials	10.4	18.6
Consumer services	8.3	10.9
Technology	7.5	8.7
Health care	5.2	5.5
Consumer goods	4.2	5.2
Telecoms	1.4	1.1
Utilities	1	1

KEY AIM STATISTICS

Total number of AIM	1,151
Number of nominated advisers	61
Number of market makers	50
Total market cap for all AIM	£75.63bn
Total of new money raised	£75.89bn
Total raised by new issues	£34.72bn
Total raised by secondary issues	£41.17bn
Share turnover value (2011)	£24.51bn
Number of bargains (2011)	3.46m
Shares traded (2011)	£115.18bn
Transfers to the official list	157

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	771.51	+11.8
FTSE AIM 50	3196.94	+11.4
FTSE AIM 100	3515.72	+11.2
FTSE Fledgling	4535.04	+11.3
FTSE Small Cap	3022.22	+8.5
FTSE All-Share	2800.51	+3.9
FTSE 100	5394.53	+3.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	245
£5m-£10m	156
£10m-£25m	238
£25m-£50m	209
£50m-£100m	126
£100m-£250m	108
£250m+	69

TOP 5 RISERS OVER 30 DAYS

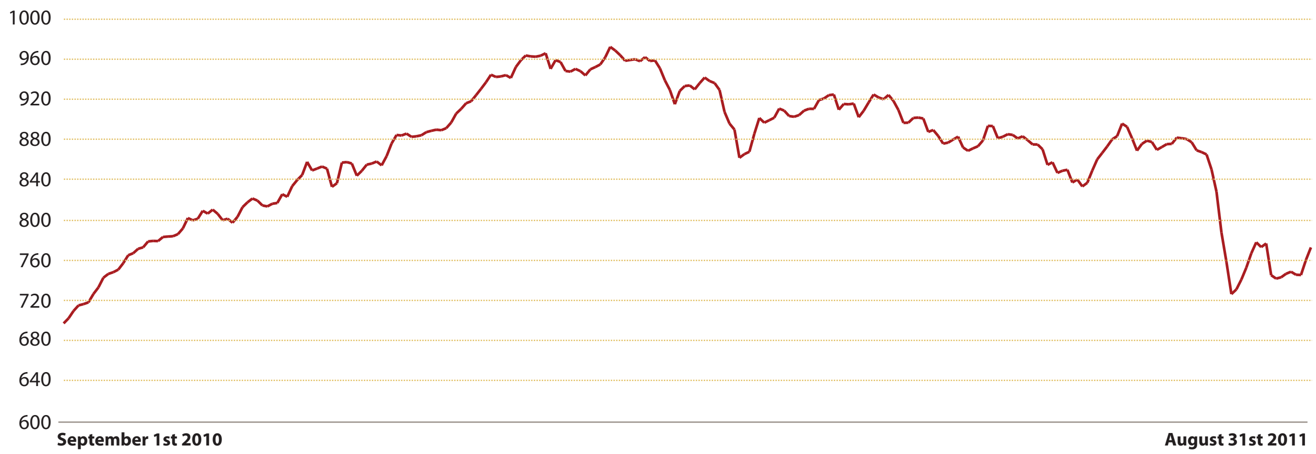
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Rubicon Diversified Investments	Financials	1.38	+150
Sterling Green	Financials	0.4	+77.8
Marechale Capital	Financials	1.38	+57.1
Ten Alps	Media	3.12	+56.3
PSG Solutions	Support services	79.5	+54.4

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Medicsight	Health	1.05	-79
RCG Holdings Ltd	Electronics	3.38	-50
Matra Petroleum	Oil and gas	0.85	-49.3
Churchill Mining	Mining	19.25	-48.7
Petro Matad Ltd	Oil and gas	56	-45.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2011, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is a client focused institutional broker and corporate advisor, with astrong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

PUBLISHED BY:	Hubinvest Ltd,	**Mobile:**	07849 669 572
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

SPONSORSHIP & ADVERTISING editor@aimmicro.com or telephone 020 8549 4253